

LS-6757

MEMORANDUM FOR: ADD/Administration - Special  
FROM: General Counsel  
SUBJECT: Covert Income Tax Problems

1. From time to time cases arise in which <sup>problems arising out of</sup> ~~necessity for~~ payment of income tax threatens <sup>impose</sup> security ~~on a~~ penalty on the individual. Typical is a case which arose recently in which an agent was instructed by a case officer to allot a certain amount for purchase of Series E bonds which would be used to pay off his tax obligation when the agent returned. After three years the agent is back, having filed no returns and having made no payments. The Internal Revenue authorities have been very cooperative in clearing up such cases securely, but they cannot go outside of their laws and regulations; and in this case there will undoubtedly be interest on the tax owed and possibly penalties, both of which are unfair to the agent. Also special handling always creates a security problem.
2. The fault <sup>has been</sup> ~~was~~, largely due to the very natural lack of understanding of the very complex problem of taxes involved in covert operations. Discussions with Training and other offices indicate that it is very difficult to indoctrinate people generally in such intricate technical subjects.
3. I suggest, as a practical move to improve the situation, that a notice or regulation be issued by the covert offices instructing all case officers on the fact that there is a tax

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problem and that as each case differs ~~in the requirements and~~  
~~in the handling~~, each case should be discussed with the lawyers  
during the formation of a plan. Suggested wording is set forth  
in the attached paper.



~~LAWRENCE R. HOUSTON~~

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